



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Report of the auditor-general to the North West provincial legislature and the council on the Tswaing Local Municipality

Report on the financial statements

Introduction

1. I was engaged to audit the financial statements of the Tswaing Local Municipality set out on pages XX to XX, which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with International Standards on Auditing. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Inventories

4. The municipality did not properly account for land owned by the municipality in accordance with GRAP 12 *Inventory* due to the lack of controls implemented for managing properties owned by the municipality. I was unable to determine the full extent of the misstatement of inventories of R841 755 (2014: R773 768) as disclosed in the statement of financial position and note 5 to the financial statements as it was impracticable to do so.



Trade receivables from exchange transactions

5. The municipality did not correctly account for the provision for doubtful debt in accordance with GRAP 104 *Financial Instruments* as the municipality did not maintain adequate records of debtor payments received. I was unable to determine the full extent of the misstatement on the impairment of R196 050 744 (2014: R180 323 874) included in trade receivables from exchange transactions in the statement of financial position and note 7 to the financial statements or the related debt impairment in the statement of financial performance of R15 726 870 (2014: R26 584 247 disclosed in note 22 to the financial statements).
6. The municipality did not correctly account for debtors with credit balances in accordance with GRAP 104 *Financial Instruments* as the municipality did not maintain adequate records of debtor payments received. Had these balances been correctly accounted for, trade receivables from exchange transactions in the statement of financial position and disclosed in note 7 to the financial statements would have increased by R14 127 620 and trade and other payables in the statement of financial position would have increased by the same amount.
7. The municipality did not correctly account for receivables from non-exchange transactions in accordance with GRAP 1 *Presentation of financial statements* as the municipality disclosed receivables from non-exchange transactions as receivables from exchange transactions, resulting in an overstatement of receivables from exchange transactions by R37 858 071 (2014: R32 969 151) and an understatement of receivables from non-exchange transactions by the same amount.

Other receivables from exchange transactions

8. I was unable to obtain sufficient appropriate audit evidence for other receivables from exchange transactions as the information and explanations I considered necessary to confirm these receivables were not available. This was due to a lack of proper record keeping by the municipality. I was unable to confirm these receivables by alternative means. Consequently, I was unable to determine whether any adjustments to other receivables from exchange transactions of R2 746 432 (2014: R450 170) as disclosed in the statement of financial position and note 6 to the financial statements, were necessary.

Cash and cash equivalents

9. The municipality did not correctly account for cash and cash equivalents in accordance with GRAP 104 *Financial Instruments* as the municipality did not process all reconciling items in the accounting records. Had these items been processed, cash and cash equivalents of R1 367 888 as disclosed in the statement of financial position and note 8 to the financial statements would have increased by R1 909 465 and trade receivables from exchange transactions of R14 041 706 as disclosed in the statement of financial position and note 7 to the financial statements would have decreased by the same amount.

Payables from exchange transactions

10. The municipality did not correctly account for trade and other payables in accordance with GRAP 104 *Financial Instruments* as the municipality accounted for creditor balances owed by the municipality to itself. Had these items been accounted for correctly, payables from exchange transactions of R105 844 375 as disclosed in the statement of financial position and note 11 to the financial statements would have decreased by R2 429 324 and general expenses of R46 630 993 as disclosed in the statement of financial performance and note 18 to the financial statements would have decreased by the same amount.

Value added tax (VAT) payable

11. The municipality did not correctly account for VAT as the municipality did not claim and declare VAT on all payments and receipts. Had these items been accounted for correctly, VAT of R9 019 867 as disclosed in the statement of financial position and note 12 to the financial statements would have increased by R13 004 451, revenue of R57 273 035 as disclosed in the statement of financial performance and note 16 would have decreased by R14 540 518 and general expenses of R46 630 993 as disclosed in the statement of financial performance and note 18 to the financial statements would have decreased by R1 536 067. Furthermore, the municipality claimed VAT on invoices from non-VAT vendors resulting in VAT being understated by R1 571 644 and expenditure being overstated by the same amount.

Unspent conditional grants and receipts

12. The municipality did not correctly account for unspent conditional grants and receipts in the prior year as required by GRAP 23 *Revenue from non-exchange transactions* as the municipality incorrectly recognised revenue in the current year when the conditions had already been met in the prior year. Consequently, unspent conditional grants and receipts of (R1 352 412) as disclosed in the statement of financial position is overstated by R2 705 749 in the prior year and revenue of R123 556 987 as disclosed in the statement of financial performance overstated by R2 705 549 in the current year.

Provisions

13. The municipality did not include all landfill sites in their provision for environmental rehabilitation in accordance GRAP 19 *Provisions, contingent liabilities and contingent assets*. I was unable to determine the full extent of the misstatement of the provision for the environmental rehabilitation of landfill sites of R13 684 607 (2014: R11 992 310) in the statement of financial position and disclosed in note 10 to the financial statements as it was impracticable to do so.
14. The municipality did not correctly account for accruals in accordance with GRAP 1 *Presentation of financial statements* as the municipality disclosed an accrual for bonuses as a provision, resulting in an overstatement of provisions by R1 425 530 (2014: R1 418 521) and an understatement of payables from exchange transactions by the same amount.

Revenue from exchange transactions

15. I was unable to obtain sufficient appropriate audit evidence that management properly charged and accounted for the sale of electricity and water as the municipality could not provide proper substantiating records for water and electricity consumption. Furthermore, the municipality did not account for all service charges as revenue in accordance with GRAP 9 *Revenue from exchange transactions* as the municipality did not maintain adequate records of the indigent debtors. I was unable to confirm these revenue items by alternative means. Consequently, I was unable to determine whether any adjustments relating to the revenue from the sale of electricity and water of R38 261 474 (2014: R34 639 733) included in service charges disclosed in note 16 and the related trade receivables from exchange transactions of R26 430 250 (2014: R32 708 615) disclosed in the statement of financial position and note 7 to the financial statements were necessary.

Revenue from non-exchange transactions

16. The municipality did not properly levy and accounted for property rates in accordance with GRAP 23 *Revenue from non-exchange transactions* due to the lack of a reliable valuation roll and indigent debtor register. I was unable to determine the full extent of the understatement of property rates of R13 110 900 as disclosed in the statement of financial performance and note

15 or the related trade receivables from exchange transactions of R37 858 071 as disclosed in the statement of financial position and note 7 to the financial statements as it was impracticable to do so.

Repairs and maintenance

17. The municipality did not correctly account for repairs and maintenance in accordance with GRAP 1 *Presentation of financial statements* as the municipality incorrectly recognized capital assets under repairs and maintenance. Consequently, repairs and maintenance of R5 866 024 as presented in the statement of financial performance is overstated by R1 615 300 and property, plant and equipment of R456 458 200 as disclosed in the statement of financial position is understated by the same amount.

Fair value adjustment

18. The municipality did not correctly account for fair value adjustments on investment property in the prior year as required by GRAP 16 *Investment property* as the municipality did not transfer a fair value adjustment to investment properties through profit and loss. Had this fair value adjustment been correctly accounted for, the fair value adjustment in the statement of financial performance would have decreased by R5 772 549 in the prior year while accumulated surplus would have increased by the same amount.

Going concern

19. The municipality incurred a net deficit of R78 864 188 (2014: R5 344 741) and, as of that date, the municipality's current liabilities exceeded its current assets by R103 869 209 (2014: R90 103 747). These conditions, along with other matters, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern. This has not been appropriately disclosed in note 35 to the financial statements.

Commitments

20. The municipality did not disclose all commitments as required by GRAP 17 *Property, plant and equipment* due to a lack of proper record keeping. I identified capital commitments of R5 467 408 (2014: R13 245 025) that was not included in the capital commitments of R12 120 044 (2014: R14 613 079) disclosed in note 29 to the financial statements but as the municipality did not quantify the full extent of these commitments, it was impracticable to determine the total resultant understatement of these commitments.

Material losses

21. The municipality did not disclose material water distribution losses in the prior year and current year, as required by section 125(2)(d)(i) of the MFMA. This was due to a lack of proper monitoring controls. I was unable to determine the full extent of the water distribution losses as it was impracticable to do so. In addition, electricity distribution losses as disclosed in note 31 to the financial statements was overstated by R2 492 127.

Irregular expenditure

22. Section 125 of the MFMA requires the disclosure of irregular expenditure incurred. The municipality made payments of R23 599 990 (2014: R11 568 008) in contravention with the supply chain management requirements which were not included in irregular expenditure disclosed. As the municipality did not quantify the full extent of the irregular expenditure, it was impracticable to determine the resultant understatement of irregular expenditure as per note



39 to the financial statements.

Unauthorised expenditure

23. I was unable to obtain sufficient appropriate audit evidence for unauthorised expenditure as the information and explanations I considered necessary to confirm that unauthorised expenditure was complete, valued and condoned correctly, was not available. This was due to a lack of proper record keeping by the municipality. I was unable to confirm unauthorised expenditure by alternative means. Consequently, I was unable to determine whether any adjustments to unauthorised expenditure of R66 793 073 as disclosed in note 37 were necessary.

Prior period error

24. The municipality did not correctly disclose prior period errors in accordance with GRAP 3 *Accounting policies, estimates and errors* as the municipality overstated payables from exchange transactions as disclosed in note 33 to the financial statements by R1 906 494.
25. The municipality did not correctly disclose prior period errors in accordance with GRAP 1 *Presentation of Financial Statements* as the municipality did not separately present the prior period errors of R137 581 039 in the statement of changes in net assets.

Aggregation of immaterial uncorrected misstatements

26. The financial statements were materially misstated due to the cumulative effect of numerous individual immaterial uncorrected misstatements in the following items included in the statement of financial position and the statement of financial performance:

- Infrastructure assets of R456 458 200 is understated by R5 551 191.
- Dividends receivable of R42 865 is overstated by R42 865.
- Consumer deposits of R1 219 743 is understated by R1 120 000.
- Employee costs of R64 177 046 is overstated by R376 297.
- General expenditure of R46 630 993 is overstated by R189 843.
- Bulk purchases of R27 425 905 is overstated by R1 305 151.
- Other income of R1 388 667 is understated by R473 003.
- Accrued leave pay of R9 069 719 is understated by R454 440.

In addition, I was unable to obtain sufficient appropriate audit evidence to confirm the following:

- Eskom deposit of R300 000 presented in the statement of financial position.
- Commission received of R248 178 as presented in the statement of financial performance.
- Other income of R2 426 327 included in the disclosed balance of R57 273 035 as presented in the statement of financial performance.
- Consumer deposits of R1 219 743 in the statement of financial position.

Consequently, I was unable to determine whether any further adjustments to these items were necessary.

Cash flow statement

27. I was unable to obtain sufficient appropriate audit evidence that the cash flow statement is correct due to the limitations and disagreement misstatements as included in the basis for disclaimer of opinion paragraphs. I was unable to confirm the cash flow statement by alternative means. Consequently, I was unable to determine whether any adjustments relating to the cash flow statement or the notes thereto were necessary.

Disclaimer of opinion

28. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

Emphasis of matters

29. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Fruitless and wasteful expenditure

30. As disclosed in note 38 to the financial statements, fruitless and wasteful expenditure of R9 031 718 was incurred in the current year and fruitless and wasteful expenditure in respect of prior years of R1 417 465 had not been dealt with in accordance with section 32 of the MFMA.

Restatement of corresponding figures

31. As disclosed in note 33 to the financial statements, the corresponding figures for 2014 have been restated as a result of an error discovered during 2015 in the financial statements of Tswaing Local Municipality at, and for the year ended, 30 June 2014.

Additional matters

32. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited disclosure notes

33. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Unaudited supplementary schedules

34. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

Report on other legal and regulatory requirements

35. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected thematic areas presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each



subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

36. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected thematic areas presented in the annual performance report of the municipality for the year ended 30 June 2015:
 - Thematic area 1: Service delivery and infrastructure investment on pages XX to XX
 - Thematic area 3: Good governance and public participation on pages XX to XX
 - Thematic area 6: Local economic development and spatial rational on pages xx to xx
37. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
38. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned thematic areas. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).
39. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
40. The material findings in respect of the selected development priorities are as follows:

Thematic area 1: Service delivery and infrastructure investment

Usefulness of reported performance information

41. Section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires actual achievements against all planned indicators and targets to be reported annually. The annual performance report submitted for audit purposes did not include the actual performance of 86% of all planned objectives, 33% of indicators and 46% of targets specified in the integrated development plan for the year under review. This was due to a lack of monitoring of the completeness of reporting documents by management.
42. Section 54(1)(c) of the MFMA determines that the service delivery and budget implementation plan adopted by the municipal council may be amended only if the council approves an adjustments budget. Changes to the service delivery and budget implementation plan in the year have to be made in accordance with the process as prescribed per section 28 of the MFMA. Material changes were made to the targets in the annual performance report, without following the process as prescribed in section 28 of the MFMA and without adoption by the municipal council. This was due to a lack of monitoring of the consistency of reporting documents by management.
43. Performance indicators measures should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use, as required by the FMPPI. A total of 91% of the indicators were not well defined.
44. The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. A total of 83% of the indicators were not verifiable.

This was due to a lack of proper systems and processes and technical indicator descriptions.

Reliability of reported performance information

45. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of the reported performance information. This was due to the fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information and the auditee's records not permitting the application of alternative audit procedures.

Thematic area 3: Good governance and public participation

Usefulness of reported performance information

46. Section 41(c) of the MSA requires actual achievements against all planned indicators and targets to be reported annually. The annual performance report submitted for audit purposes did not include the actual performance of 25% of all planned objectives, 41% of indicators and 62% of targets specified in the integrated development plan for the year under review. This was due to a lack of monitoring of the completeness of reporting documents by management.
47. Section 54(1)(c) of the MFMA determines that the service delivery and budget implementation plan adopted by the municipal council may be amended only if the council approves an adjustments budget. Changes to the service delivery and budget implementation plan in the year have to be made in accordance with the process as prescribed per section 28 of the MFMA. Material changes were made to the targets in the annual performance report, without following the process as prescribed in section 28 of the MFMA and without adoption by the municipal council. This was due to a lack of monitoring of the consistency of reporting documents by management.
48. The period or deadline for delivery of targets should be specified as required by the FMPPI. A total of 39% of the targets were not time bound.
49. Performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use, as required by the FMPPI. A total of 89% of the indicators were not well defined.
50. The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. A total of 100% of the indicators were not verifiable.
- This was due to a lack of proper systems and processes and technical indicator descriptions.
51. The FMPPI requires indicators to relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives. A total of 74% of the indicators did not relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives as per the integrated development. This was because proper performance planning and management practices had not been developed.

Reliability of reported performance information

52. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of the reported performance information. This was due to the fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information and the auditee's records not permitting the application of alternative audit procedures.

Thematic area 6: Local economic development and spatial rational

Usefulness of reported performance information

53. Section 41(c) of the MSA requires actual achievements against all planned indicators and targets to be reported annually. The annual performance report submitted for audit purposes did not include the actual performance of 100% of planned objectives specified in the integrated development plan for the year under review. This was due to a lack of monitoring of the completeness of reporting documents by management.
54. Performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use, as required by the FMPPI. A total of 89% of the indicators were not well defined.
55. The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. A total of 83% of the indicators were not verifiable.
56. The period or deadline for delivery of targets should be specified as required by the FMPPI. A total of 61% of the targets were not time bound.

This was because management was not trained on the requirements of the FMPPI.

57. The FMPPI requires indicators to relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives. A total of 83% of the indicators did not relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives as per the integrated development.

This was due to a lack of proper systems and processes and technical indicator descriptions.

Reliability of reported performance information

58. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of the reported performance information. This was due to the fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information and the auditee's records not permitting the application of alternative audit procedures.

Additional matter

59. I draw attention to the following matter:

Achievement of planned targets

60. Refer to the annual performance report on page(s) XX to XX and XX to XX for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected development priorities reported in paragraphs XX to XX of this report.

Compliance with legislation

61. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:



Strategic planning and performance management

62. The adopted integrated development plan (IDP) did not reflect and identify a financial plan, as required by sections 26 and 41 of the MSA, as well as regulation 2(1)(c) of the Municipal planning and performance management regulations (MPPMR).
63. The municipality did not establish a performance management system, as required by section 38(a) of the MSA.
64. The KPIs set by the municipality did not include indicators on percentage of households with access to basic level of water, sanitation, electricity and solid waste removal were not set by the municipality as required by section 43(2) of the MSA and regulation 10(a) of the MPPMR.
65. The service delivery and budget implementation plan (SDBIP) for implementing the municipality's delivery of municipal services and annual budget did not indicate service delivery targets and performance indicators for each quarter or the operational and capital expenditure by vote as required by section 1 of the MFMA.
66. The performance of the municipality was not assessed during the first half of the financial year, as required by section 72(1)(a)(ii) of the MFMA.
67. The annual performance agreements for the municipal manager and all senior managers were not linked to the measurable performance objectives approved with the budget and to SDBIP as required in terms of section 53(1)(c)(iii) of the MFMA and section 57(1)(b) of the MSA.

Annual financial statements, performance and annual reports

68. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA . Material misstatements identified by the auditors in the submitted financial statements were not corrected, which resulted in the financial statements receiving a disclaimer audit opinion.
69. The annual performance report for the year under review did not include the performance of the municipality and each external services provider, a comparison with the previous financial year and measures taken to improve performance as required by section 46 (1)(a) of the MSA.
70. The oversight report, containing comments on the annual report, was not adopted by council within two months from the date on which the 2013-14 annual report was tabled, as required by section 129(1) of the MFMA.

Audit committee

71. The audit committee did not advise the council on matters relating to internal financial control and internal audits as required by section 166(2)(a) of the MFMA.
72. The audit committee did not advise the council on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.
73. The audit committee did not advise the council on matters relating to compliance with legislation, as required by section 166(2)(a)(vii) of the Municipal Finance Management Act.
74. The audit committee did not review the annual financial statements to provide the council with an authoritative and credible view of the financial position of the entity, its efficiency and effectiveness and its overall level of compliance with legislation, as required by section 166(2)(b) of the MFMA.
75. The audit committee did not respond to the council on the issues raised in the audit reports of the Auditor-General, as required by section 166(2)(c) of the MFMA.



76. The audit committee did not make recommendations to the council regarding the municipality's performance management system, as required by Municipal planning and performance management regulation 14(4)(a)(ii).
77. The audit committee did not submit, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by regulation 14(4)(a)(iii) of the MPPMR.

Internal audit

78. An internal audit unit was not established throughout the year, as required by section 165(1) of the MFMA.

Procurement and contract management

79. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) & (c).
80. Quotations were accepted from prospective providers who are not registered on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy in contravention of SCM regulation 16(b) and 17(b).
81. Sufficient appropriate audit evidence could not be obtained that bid specifications were drafted by bid specification committees which were composed of one or more officials of the municipality as required by SCM regulation 27(3).
82. Bid adjudication was not always done by committees which were composed in accordance with SCM regulation 29(2).
83. The preference point system was not applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1)(a).
84. Contracts and quotations were awarded to bidders based on preference points that were not calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.
85. Contracts and quotations were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act.
86. Contracts and quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
87. Contracts were extended without tabling the reasons for the proposed amendment in the council of the municipality, as required by section 116(3) of the MFMA.
88. Awards were made to providers who are in the service of other state institutions or whose directors/ principal shareholders are in the service of other state institutions, in contravention of MFMA 112(j) and SCM regulations 44. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).
89. A list of accredited prospective providers was not in place for procuring goods and services through quotations as required by SCM regulation 14(1)(a).

Conditional grants received

90. The municipality did not evaluate its performance in respect of programmes funded by the Municipal Infrastructure Grant (MIG), Municipal Systems Improvement Grant (MSIG) or Local Government Financial Management Grant allocations, as required by section 12(5) of the



DoRA.

91. MIG and MSIG funds were rolled over to the next financial year without seeking the approval of the National Treasury, as required by sections 22(1) of the DoRA.

Revenue management

92. An adequate management, accounting and information system which accounts for revenue, debtors and receipts of revenue was not in place, as required by section 64(2)(e) of the MFMA.
93. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.
94. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

Asset management

95. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
96. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.
97. All investments were not made in accordance with the requirements of the investment policy, as required by regulation (3) of the Municipal investment regulations.
98. Investments were made in listed shares, in contravention of regulation 6 of the Municipal investment regulations.

Human resource management

99. An approved staff establishment was not in place, as required by section 66(1)(a) of the MSA.
100. The competencies of the chief financial officer, head of supply chain and supply chain management officials were not assessed in a timely manner in order to identify and address gaps in competency levels as required by regulation 13 of the Municipal Regulations on Minimum Competency Levels.
101. The municipality did not submit a report on compliance with prescribed competency levels to the National Treasury and relevant provincial treasury as required by regulation 14(2)(a) of the Municipal Regulations on Minimum Competency Levels.
102. The annual report of the municipality did not reflect information on compliance with prescribed minimum competencies as required by regulation 14(2)(b) of the Municipal Regulations on Minimum Competency Levels.
103. Sufficient appropriate audit evidence could not be obtained that the municipality developed and adopted appropriate systems (policies) and procedures to monitor, measure and evaluate performance of staff as required by section 67(d) of the MSA.
104. Senior managers did not sign performance agreements, as required by section 57(2)(a) of the MSA.

Expenditure management

105. Money owed by the municipality was not always paid within 30 days as required by section 65(2)(e) of the MFMA.
106. Reasonable steps were not taken to prevent unauthorised expenditure, irregular



expenditure, fruitless and wasteful expenditure, as required by section 62(1)(d) and 95(d) of the MFMA.

Liability management

- 107. An adequate management and accounting system which accounts for liabilities was not in place, as required by section 63(2)(a) of the MFMA.
- 108. An effective system of internal control for liabilities was not in place, as required by section 63(2)(c) of the MFMA.

Consequence management

- 109. Unauthorised, irregular, fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.
- 110. Sufficient appropriate audit evidence could not be obtained that authorisation of unauthorised expenditure was done through an adjustment budget, as required by section 32(2)(a)(i) of the MFMA.

Environmental management

- 111. The municipality operated its wastewater treatment facility without a license in contravention of section 20(b) of the National Environmental Management Waste Act, 2008 (Act No. 59 of 2008) (NEMWA), section 24(2)(a) of the National Environmental Management Act, 1998 (Act No. 107 of 1998) (NEMA) and section 22(1)(b) of the National Water Act, 1998 (Act No. 36 of 1998) (NWA).
- 112. The municipality's operational activities at its waste disposal sites contravened or failed to comply with the requirements of a waste management license, sections 67(1)(f) and (h) of the NEMWA and sections 151(1)(c) and (i) of the NWA.
- 113. The municipality's waste management and disposal activities contravened or failed to comply with the requirements of section 28(1) of the NEMA, section 19 of the NWA and sections 16(1)(c), (d) and 26(1)(b) of the NEMWA.
- 114. The municipality did not exercise its legislative and executive authority as required by section 11(3)(l) and (m) of the MSA by managing, monitoring and enforcing environmental related bylaws to promote a safe and healthy environment.

Internal control

- 115. I considered internal control relevant to my audit of the financial statements, the annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for disclaimer of opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

- 116. The leadership's philosophy and operating style is not contributing towards a clean administration. This is evidenced by the lack of implementation and monitoring of action plans to address prior year audit findings, the establishment of a culture of honesty, ethical business practices and good governance requires urgent intervention. Leadership failed to appoint sufficient appropriately skilled staff in key positions within the finance unit and the



training and development initiatives failed to address the underlying deficiencies that caused matters to be reported on repeatedly.

Financial and performance management

117. Management did not adequately monitor financial and performance reporting, compliance with laws and regulations and internal control as significant volume of supporting documentation could not be submitted. The inability to address prior year audit findings and staff in finance not understanding the requirements of the financial reporting framework is concerning. Management's lack of commitment to address repetitive findings relating to supply chain management regulations is indicative of financial misconduct. Furthermore, management did not implement proper controls over the IT systems, exposing the municipality to a risk of unauthorised access and data loss.

Governance

118. The audit committee did not fulfil its function in relation to the monitoring of the implementation of external audit recommendations and review of compliance with regulations. The internal audit unit was not functioning throughout the year. Consequently, the internal control environment of the municipality over financial and performance information and compliance with laws and regulations remained ineffective.

Other reports

Investigations

119. The investigations were prompted by the administrator undertaken by an independent firm on senior managers on alleged financial misconduct. The investigations were still on-going at the reporting date

Auditor-General
Rustenburg

30 November 2015



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence